

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

QAD 757
A 74

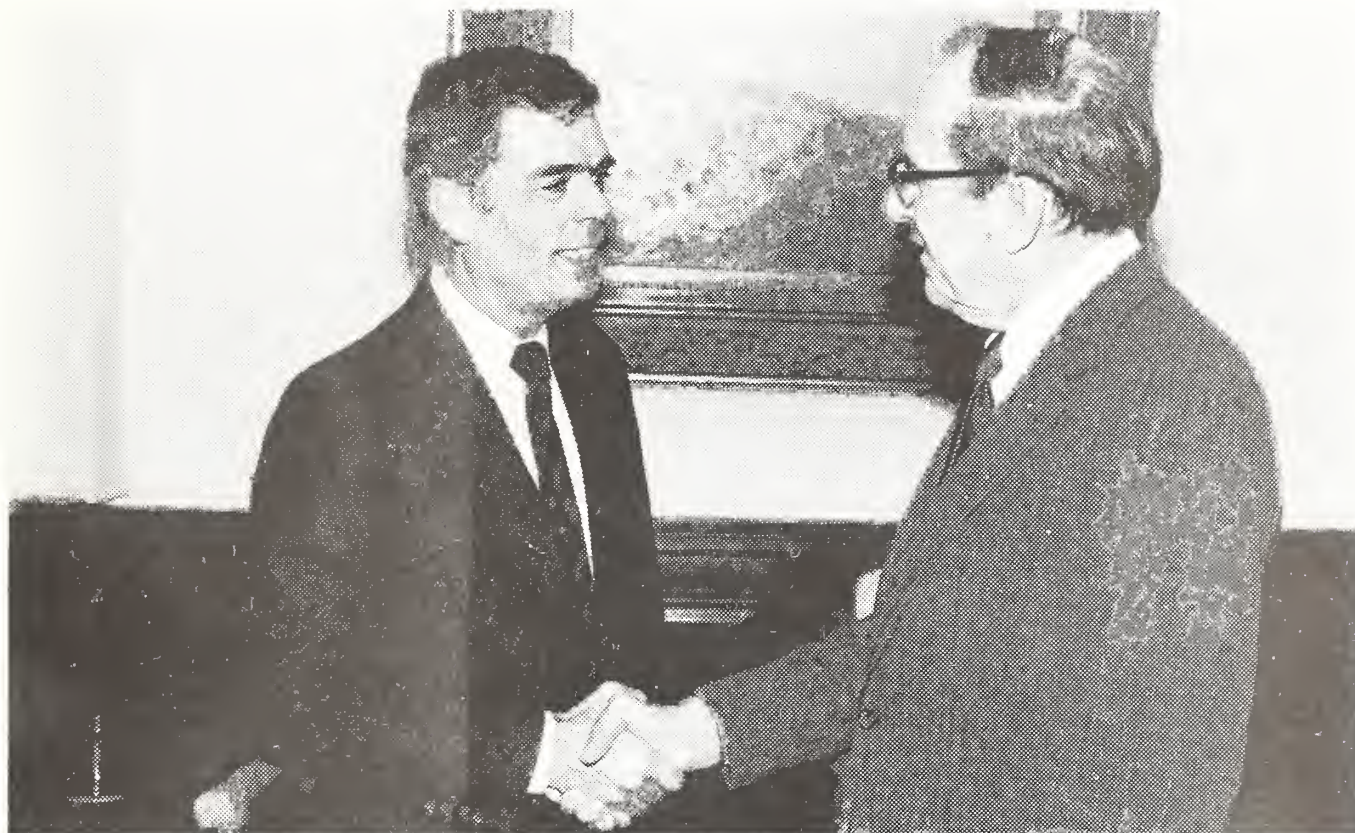
ARED Newsletter

AGRICULTURE AND RURAL ECONOMICS DIVISION
ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

SUMMER 1986

Chief Historian Retires



*To Wayne - You have seen many of us come and go. You have provided a distinguished service to USDA. Best Wishes
John Bloch*

Wayne Rasmussen, Chief Historian of the United States Department of Agriculture and Chief of Agriculture and Rural History Branch, will retire in August after nearly 50 years of service.

Wayne is one of the nation's foremost agricultural historians and during his long illustrious career has done much to become the

institutional memory of the agricultural economics profession. He has provided counsel to the administrations of 12 Secretaries of Agriculture.

Wayne was born in Montana in 1915 and spent his childhood along with two brothers and a sister on a ranch. He received a B.A. degree from the University of Montana (1937), an M.A. degree (1939) and a Ph.D. (1950) from George Washington University. He joined the Bureau of Agriculture Economics (USDA) in 1937 as a typist.

His reputation has been built on pioneering efforts in the use of historical techniques in agricultural policy analysis, but he may be best known for his work on the growth of U.S. agricultural production capacity. In this area Wayne provided a fundamental framework for analysis, having developed a theory of historical growth that relates labor supplies, demand, and technology to political and economic factors outside the agricultural system.

Wayne is a Fellow of the American Agricultural Economics Association, past president of the Agricultural History Society, founder and past president of the Association for Living Historical Farms, past president of the Society for History in the Federal Government, and president of the National Agricultural Library Associates. He received USDA's Superior Service Award in 1964 and the Department's highest award, for Distinguished Service, in 1973.

In looking toward his prospective retirement, several newspaper and television reporters have asked him what he regards as the most important events affecting American agriculture over the past 50 years. He stated that the major events are: New Deal farm legislation, including price supports and adjustment, soil conservation, rural electrification, and farm credit, which set-up programs still in effect that preserved farming, and that the development of what was called the "package of practices approach farming" in the early 1950's, sometimes called system analysis or integrated farm management which transformed farm production during the 1950's and 1960's. Of only slightly lesser importance has been the increasing importance of world markets and of American assistance to developing nations. The work on biogenetics may be the most important development in the near future.

We wish you the best of luck, Wayne.

* * *

No Near-Term Solution

Kenneth L. Deavers, Director of Agriculture and Rural Economics Division delivered a paper "The Future of Nonmetro America" to the Demographic Outlook 1986 Conference in June. The conference was held in New York City.

Ken stated that nearly one-quarter of our citizens, over 56 million people in 1984, live in nonmetropolitan counties, an increase of 18.3 percent since 1970. Referring to a typography of nonmetro areas developed by ARED in 1985 that included seven categories of nonmetro counties, he chose to concentrate on the three largest: farming dependent, manufacturing dependent, and retirement counties. The power of the typology is its capacity to capture in a handful of categories an enormous amount of social and economic detail about nonmetro places, thus providing important insight into the current problems and likely futures of large regions of the country.

Concerning agricultural stress, Ken reported that some 10 to 12 percent of farm operators, who owe 45 percent of farm operators' debt, were in serious financial difficulty by 1984. They had a debt/asset ratio greater than .4 and negative net cash flow. Some of the causes of this stress are outside of agriculture and difficult to resolve with traditional farm policy. High real interest rates, an overvalued dollar, and the current period of disinflation following a period of rapid inflation are important contributors to the current financial stress.

About manufacturing counties, Ken referred to the heavy concentration of rural manufacturing employment in low-wage industries, such as apparel, textiles, wood products, leather and shoes (30 percent in rural areas versus 7 percent for the nation). Thus, rapid job losses in low-wage manufacturing are likely to have a disproportionately negative impact on rural areas. Ken noted that the service - producing industries now employ more rural workers than the goods-producing industries and the trend towards service employment is accelerating.

About the future, Ken sees no near-term solution to the serious structural problems in the agricultural and manufacturing sectors of rural America. In the longer-term, the industrial restructuring underway in the United States has significant implications for nonmetro growth. If it is true that excess capacity is the underlying problem in the agricultural sector, then further restructuring of the sector seems unavoidable. No foreseeable combination of increased domestic and international demand is likely to validate the existing aggregate scale of farming activity, and continued gains in productivity will further add to the over capacity problem. Thus, many existing farmers (and considerable capital) will be squeezed out. For the sparsely settled Great Plains, where many farmers will be displaced, the challenge is going to be to find a strategy that offers farmers and their household members new economic opportunities.

* * *

Expanded Coverage for Agricultural Economics Research

The editors of Agricultural Economics Research, **Gerald Schluter** and **Judith Latham (EMS)**, have been informed by the Institute for Scientific Information that beginning with the Winter 1986 issue they are expanding their coverage of Agricultural Economics Research (AER)

from its present coverage in Current Contents/Agriculture, Biology and Environmental Sciences to also cover AER in the Science Citation Index, the Social Science Citation Index and Current Contents/Social and Behavior Sciences. Having AER included as a citing (source) journal in these indexing journals will increase the professional visability of contributors to AER and agency publications as well. Prior to 1986, AER was carried only as a cited journal, that is, an AER contribution was counted as a citation only if it was cited by an author of an article in a citing journal. With the change in coverage, all articles cited in AER will enter the citation index.

The Social Science Citation Index annually publishes rankings of citing journals based on various frequency of citation criteria. AER will not appear in these rankings until the 1986 summary is published, likely in 1988. There is one comparison factor which includes AER and is available from SSCI: the "impact factor," a measure of the frequency with which the "average article" in a journal has been cited in a particular year, is basically a ratio between citations and citable item published. The 1984 impact factor of AER would be calculated by dividing the number of all source journal 1984 citations of AER articles published in 1982 and 1983 by the total number of citable items AER published in 1982 and 1983. AER has 8 citations of 34 citable items for an impact factor of 0.235. As a point of reference, Brookings Economics Papers has an impact factor over 3, but the American Journal of Agricultural Economics (AJAE) had 68 citations of 312 potential citable items for an impact factor of 0.218. Thus even without being a source journal, the average 1982 and 1983 AER article was more likely to be cited in 1984 than the average 1982 and 1983 AJAE article was in 1984. In 1984, AER authors cited 1982 and 1983 AER articles 5 times and AJAE articles 4 times so, had AER been a source journal, AER's impact factor would have been 0.382 and AJAE's would have been 0.231.

The impact factor is useful in evaluating the significance of absolute citation frequencies. By presenting citations relative to citable items, it discounts the advantages of large and/or more frequently issued journals over smaller and/or less frequently issued journals. On this basis, AER ranks well as a journal which has an immediate impact on economic literature.

Agricultural Economics Research is a quarterly journal published by the United States Department of Agriculture, Economic Research Service.

* * *

ARED Videotape on Changing Rural America

Several members of the ARED staff, working in conjunction with the Extension Service, Natural Resources and Rural Development, contributed to a videotape on rural conditions and trends. The tape, entitled "Changing Rural America: The Needs, The Challenge," describes diversity of economic bases in rural America and points to the importance of conceiving rural futures in terms that are specific to

each type of economy.

ARED staff participating in the film are Calvin Beale, Herman Bluestone, Ken Deavers, Nina Glasgow, Dave Harrington, and Norman Reid. Bob Lovan (Extension) and Norman Reid wrote and directed the production with considerable assistance from Dave Carter, EMS-Information. The tape is available on loan either from Bob Lovan (202-382-8743) or Norman Reid (202-786-1542).

* * *

RDP Published

Sara Mazie reports that the June issue of Rural Development Perspectives is currently in circulation. The issue features articles on such diverse subjects as the effects of the farm financial situation on rural lending institutions, the role of analysis in state industrial policy, the social-psychological impact on families leaving farming, and the farm as a source of many jobs.

Also with this issue, RDP introduces the "Exchange/Interchange" section. Readers are invited to contribute ideas and comments and reflect on rural issues included in RDP.

* * *

New Farm Definition

The Farmers' Home Administration is proposing changes in its definition of a family farm for purposes of FmHA loan eligibility. The key changes in the proposed definition concern source of income and a limit on gross farm income. Under the proposed definition a family farmer's off-farm income cannot exceed 50 percent of gross farm income, and gross farm income must be less than \$500,000 (or less than \$500,000 per eligible individual for farms with multiple operators).

The intent of the definition change is (1) to eliminate rural residences and individuals who are only casually involved in farming from eligibility for FmHA loans, and (2) to eliminate large-scale farming operations from eligibility for FmHA loans. The proposed changes also require each loan applicant to provide a proposed annual plan or farm budget covering the projected 12-month period or crop year. Farmer's Home Administration estimates the source of income criteria will affect 4.9 percent of its caseload and the gross income gap will affect 0.69 percent of its caseload. The proposed definition will apply to FmHA operating, ownership, and emergency loans. Other loan programs of FmHA will not be affected by this definitional change.

The proposed family farm definition will be publicized on September 15, 1986 for a 60-day comment period, and FmHA plans to implement the new definition on January 1, 1987.

* * *

Less Aid for Local Governments

Alvin Sokolow, visiting professor of political science from the University of California (Davis), has found that, despite sharply reduced fiscal aid, even the smallest of rural governments will be involved in a range of federal mandates from environmental requirements (such as clean water) to federal court decisions affecting local autonomy. Sokolow made several generalizations about local governments in a recent seminar:

- o Rural local governments became participants in mainstream American federalism only in the late 1960's and early 1970's as a result of new access to grant and loan programs and the imposition of new mandates.
- o Under the Administration's budget proposals for fiscal year 1987, total aid to local governments in communities under 25,000 people would decline to \$1.7 billion (down from \$4 billion in fiscal year 1985).
- o If the general revenue sharing program is not renewed beyond the current fiscal year, about 32,000 local governments in small communities--85 percent of the total--would no longer receive any federal aid.

* * *

Something Free

The Subcommittee on Agriculture and Transportation of the Joint Economic Committee, U.S. Congress, has published a collection of 65 articles on various aspects of rural America. Included in New Dimensions in Rural Policy: Building Upon Our Heritage are several articles authored by ARED staff. The volume includes: "Agriculture and Rural Policy: A Historical Note," by **Wayne D. Rasmussen**; "Metropolitan and Nonmetropolitan Population Growth in the United States since 1980," by **Calvin L. Beale** and Glenn V. Fuguitt (University of Wisconsin-Madison); "Patterns of Change in the Nonmetro and Metro Labor Force Since 1979," by **Herman Bluestone** and **John Hession**; "Agriculture's Role in the Economic Structure of Rural America," by **Mindy F. Petrulis** and **Bernal Green**; "Local Governments in Rural and Small Town America: Diverse Patterns and Common Issues," by Alvin D. Sokolow (Visiting Researcher, University of California-Davis); "Rural Infrastructure: A Look at the Policy Issues," by **Patrick J. Sullivan** and **J. Norman Reid**; and "Commerical Banking Systems Serving Rural Counties: Their Current Structure and Future Prospects," by **James J. Mikesell**, **Daniel L. Milkove**, and **Patrick J. Sullivan**.

A free copy of the report is available from the JEC at (202) 224-5321.

* * *

AAEA Meetings

A paper by James Hrubovcak (NRED) and Ron Durst on "The Impact of Tax Reform on Implicit Rental Rates for Farm Capital" has been accepted for the selected papers sessions at the AAEA meetings in Reno, Nevada. The paper estimates implicit rental rates for various types of farm capital under current law, the President's Tax Reform Proposal and the Senate and House Tax Reform Bills. Results suggest that rental rates would increase under each of the reform proposals.

Chinkook Lee will present "U.S. Agricultural Trade and Agricultural Development in the Third World: Does Development Foster More U.S. Agricultural Trade?" and Gerald Schluter will serve on a panel of editors of economic journals in another organized symposium session, "Publishing in Professional Journals: Selection Criteria, Policies, and Procedures." Jerry Stam will chair the invited papers session on the "Use of Equity Capital and Financing Future Agricultural Production."

* * *

AGGREGATE ANALYSIS AND MACROECONOMICS BRANCH

View from The Branch
by Tom Hady

I write this only a few days after returning from vacation, and I'm not totally adjusted to the "culture shock" of returning to work after 2-1/2 weeks. We spent our vacation in Sweden and Norway and it provided some food for thought that I'd like to share.

I didn't go there to study Scandinavian economic development problems, but I was impressed by how often the Swedes and Norwegians brought up problems that parallel our own. For example, the Norwegians have a continuing problem maintaining population in their northernmost states, and have apparently developed an extensive set of programs to try to encourage people to stay there. In both countries, I heard constantly about the lack of jobs in rural areas. I found that all three sons of relatives in central Sweden have moved south to the larger cities in search of work; as we sat in the kitchen discussing employment opportunities in Varmland, I had the feeling I could as easily have been in rural Minnesota.

Ken Deavers and Norm Reid have been working with OECD on sharing some of the European experience, but it seems to me we need to find other ways to learn about these types of experiences, as well.

* * *

NATIONAL AGGREGATE ANALYSIS SECTION

Domination of Domestic Demand

When the export market for U.S. farm commodities receives much attention--be it concern about the effect of the strong dollar, the effect of expanded production or alleged unfair trade practices on the part of our trade competitors, or the effect of U.S. farm programs on the competitiveness of our export commodities--it is often easy to overlook the fact that the U.S. food and fiber system is basically domestic demand oriented.

In an article, "Income and Employment Generation in the Food and Fiber System", recently published in the journal *Agribusiness*, **Gerald Schluter**, **Chinkook Lee**, and **William Edmondson** show that while net export demands account for 20 percent of total crop output, domestic food demands provide the basis for virtually all livestock production (other demands are largely offsetting) and when textile and apparel imports are considered the U.S. food and fiber system export and import effects are offsetting and virtually all of its demands are also traceable to domestic demands.

The U.S. food and fiber system in 1984 provided jobs for 18.5 percent of the civilian workforce and was the source of 18 percent of total gross national products.

* * *

Input-Output

In June, **Chinkook Lee** was a guest speaker at the National Economic Accounting Training Program class conducted by the Bureau of Economic Analysis, USDC. He lectured on the definitions and data sources of agricultural sectors of the 1982 U.S. Input-Output Table. Currently the National Aggregate Analysis Section staff is working with the BEA staff on the construction of the 1982 U.S. I/O tables.

* * *

Representing USDA

Gerald Schluter was named USDA representative to the Coverage of Economic Areas Subgroup of the Quality of Economic Statistics Working Group. The group under Chairman Lincoln Anderson, Council of Economic Advisors, is composed of representatives from Commerce, Labor and OMB, as well as USDA.

The group's first efforts will be a review of coverage problems in gross national product by industry accounts, price indices for the construction industry, prices and subsector level estimates in the service sector, subnational economic accounts and the underground economy.

* * *

Working Full-Time

Darryl S. Wills recently received his B.A. degree in economics from Howard University and now works full time in the National Aggregate Analysis Section. He began working at ERS in 1983 under a cooperative education program. Wills recently co-authored a book review, "Farm Equipment Innovations in Eastern and Central Southern Africa," which appeared in the Winter issue of Agricultural Economics Research.

* * *

MACROECONOMICS SECTION

Software Packages Tested

Jim Malley and **Ralph Monaco** recently submitted "Numerical Accuracy in Econometric Analysis on Personal Computers" to the Journal of Computational Statistics and Data Analysis. In the paper they examined the issue of numerical accuracy of the average personal computer (PC) econometrics package from the point of view of the typical user. Their sample of econometric packages included ESP, GAUSS, GIVE, LIMDEP, LOTUS, MicroTSP, RATS, SAS/STAT, SORTECT and Y-STAT. Main findings were:

- o In absolute terms the average PC econometrics package performs well in terms of numerical accuracy;
- o Relative to a group of main frame packages tested circa 1970, the PC packages are more accurate, i.e. by one whole digit;
- o The PC packages produced the same results for a typical economics problem evaluated to what the average user might consider a sufficient number of reported digits.

On the basis of their results they concluded that the average econometrics package will perform well for a wide range of economic applications and that users need not worry about losing numerical accuracy when moving from the main-frame to the PC.

* * *

G-R-H Bill

Ralph Monaco and **Mathew R. Hyle** (Wayne State University) submitted "Gramm-Rudman-Hollings, Automatic Deficit Reduction and the INFORUM Model" to the June 1986 INFORUM subscriber's meeting. The paper examines how the effects of the imposition of an automatic and across-the-board federal spending reduction differ among industries.

In particular, they found that the aerospace, ships and boats and communications equipment industries suffer the largest output and employment declines while eating and drinking places, food and tobacco and, movies and amusements are among the least affected by the

spending reduction. This result is not surprising given the industrial composition of federal purchases. However, some industries which are not direct federal suppliers were substantially affected. Among these industries were nonmetallic mining, coffee and plastic products.

* * *

AGRICULTURE AND RURAL HISTORY BRANCH

View from The Branch
by Wayne Rasmussen

In this, my last report from the Agriculture and Rural History Branch, I want to say that my life as an historian in the Department of Agriculture has been truly rewarding, yet it all happened by chance. I first began work as a clerk-typist, and was rather quickly assigned to working with files -- a suitable job for a person with a degree in history. While doing graduate work at George Washington University, I met a young lady, we got married, and bought a small house in Bethesda. One snowy morning we saw a neighbor's car stuck in a drift and stopped to help push it out. The driver was an economist in the old Bureau of Agricultural Economics, who asked why I wasn't working in the history office since that was my major. Without going into further detail, helping economist Don Horton push his car out of snow got me started in agricultural history and I have been there ever since. That is why I tell new USDA employees I meet to always help a neighbor push a car out of the snow. It might lead to an exciting career.

My own years in the Economic Research Service and its predecessors have been exciting at times and always interesting. I have been fortunate to be associated with an outstanding group of people in the Agriculture and Rural History Branch. Over the years my Division Directors and agency Administrators have been uniformly helpful as have the Assistant Secretaries for Economics.

The Agriculture and Rural History Branch has been charged with bringing historical perspective to bear on current problems and to act as an institutional memory for the Department. Carrying out these rather varied duties has helped make my job, in my opinion, the most interesting one in the federal service. We have built up a hard copy data bank that is unique in the world. Virtually every scholarly publication in the field of agricultural history today acknowledges the use of our data and cites our publications.

Over the past 25 years, the Branch has generally met its responsibilities in both bringing historical perspective to bear on current problems and in acting as USDA's institutional memory. When I joined the Branch 46 years ago, it was a history office for historians. Today, it is more nearly a history branch for policy makers.

I am proud to have been part of the Agriculture and Rural History Branch, the Agriculture and Rural Economics Division, and the Economic Research Service. I am convinced that the future can be even greater, and that I will be even prouder of the work in agricultural history in the years ahead.

* * *

HISTORY OF AGRICULTURAL POLICIES AND PROGRAMS SECTION

Making Decisions

Doug Bowers gave a paper "Participants in the 1985 Farm Bill Legislation" at a session of the Western Social Science Association in Reno, Nevada in April. The paper argued that, while participants in farm bill writing have increased over the past few years, decisions by Congress are still made in much the same way, that is by the agriculture committees and with considerable influence from commodity associations. The "New Populist" farm groups that have arisen during the recent farm crisis made themselves heard in Congress but, in the end, the older farm groups prevailed.

* * *

About Quotas

Jane Porter and **Wayne Rasmussen** recently responded to a request from the Assistant Secretary's office about mandatory control programs of the past. Mandatory marketing quotas became a part of permanent legislation in the 1938 Agriculture Adjustment Act. Used regularly for tobacco and peanuts, they were rarely put into effect for other crops. During most years in the 1950's marketing quotas were announced for wheat. They succeeded in cutting wheat acreage but higher yields and reduced penalties for noncompliance caused total production to increase and prices to fall.

* * *

A Vist From China

In April **Doug Bowers** briefed a delegation from the People's Republic of China on the history of American agricultural policies. Led by Yang Lianfang, Acting Director and Senior Research Fellow at the National Research Center for Rural Development in Beijing, China, the delegation was interested in learning how the public and private sectors have combined to make U.S. agriculture a success story. Mr. Yang was especially interested in the New Deal period, which he felt offered parallels to the present situation in China. Members of the delegation asked a number of questions relating to rural development and the consequences of the decline in farm population.

* * *

REFERENCE AND DOCUMENTATION CENTER

South Building Collection Moved

D. J. Fusonie, head librarian of the ERS Reference Center reports that the agricultural economics/social sciences collection housed in the stacks at the South Building is being relocated to the National Agricultural Library (NAL) in Beltsville. The DC Reference Center with its collection and display journals will remain in the South Building. The projected date for completion of this reorganization of some 250,000 volumes has been given as September 30. In the interim, the stacks at both South Building and at NAL are closed to patrons. All queries regarding renewals and charges are being managed by the Lending Branch in Beltsville.

The ERS Reference Center will continue handling inter-library loan requests for the researchers at 1301 New York Avenue. In this regard, there may be some delay in the retrieving of materials since many titles will be inaccessible at both locations and will have to be borrowed from other sources.

* * *

FARM AND RURAL ECONOMY BRANCH

The View from the Branch by Dave Harrington

Farm Financial Conditions as of January 1986:

Indicators of farm financial condition, calculated from the 1985 Farm Costs and Returns Survey data, show mixed results for last year. Farms improved their cash flow positions, largely because of continued high direct government payments and greatly increased CCC commodity loans. Farmers equity and debt/asset ratio positions worsened due to continuing declines in land values. Private farm lenders have considerable risk exposure in their farm loan portfolios. However, the Farmers Home Administration's portfolio is considerably more at risk. Fully 35 percent of FmHA's portfolio is owed by technically insolvent borrowers, and 85 percent by borrowers with debt/asset ratios over .4. It is likely that many will not be able to meet current debt repayment obligations from all their sources of household income.

Development during the first 6 months of 1986 and forecasts for the year suggest little change in operators' income positions but further albeit slower, deterioration in their equity positions. Larger direct government payments and reduced production expenses will essentially

offset lower receipts. But continued declines in asset values, particularly land values, will more than offset declines in operator debt.

Overall Farm Financial Conditions

- o Farm cash flow positions improved somewhat in 1985 from the previous year. Over 55 percent of the farms had positive cash flows considering all sources of family income and all cash obligations including interest, principal payments and minimal family living expenses. The comparable percentage in 1984 was 49 percent. Nearly 50 percent of all debt was owed by farms with positive cash flows, as opposed to 36 percent in 1984.
- o Debt/asset ratios, in contrast, deteriorated slightly. A total of 21 percent of farms, which owe 66 percent of the debt have debt/asset ratios over .40. The equivalent 1984 figures were 19 percent of farms and 62 percent of the debt.
- o The proportion of farms and debt with the most serious financial problems--both high debt/asset ratios and negative cash flows declined from January 1985 to 1986. These farms now make up 11.2 percent of all farms, down from 12.6 percent in 1985. They account for about 37 percent of farm operator debt, as opposed to 45 percent in 1984.
- o It is important to note that 40 percent of all farms were debt-free on January 1, 1986 and that an additional 23 percent had debt/asset ratios below .4 and positive cash flows. Thus, over 63 percent of farm operators are not exhibiting financial stress. Another 16 percent have good debt/asset positions, but showed a negative cash flow in 1985.

Conditions by Size, Region, and Type of Farm

- o The proportion of farms with high debt/asset ratios increases steadily across sales classes from a low of 10 percent for the smallest sales class (less than \$10,000) to over 40 percent for the largest sales class (over \$500,000). Over two-thirds of the debt at risk is concentrated in the 3 highest sales classes and one-third of total debt is in the \$100,000 to \$249,999 sales class.
- o Numbers of farms and farm debt experiencing stress are also highly correlated with type of farm. Two types of farms--cash grain and general livestock--account for almost two-thirds of all farms and debt at risk due to high debt/asset ratios. Dairy farms account for another 10 percent of farms and farm debt at risk.
- o The Upper Midwest has the highest proportion of farms and debt at risk. Three regions--the Corn Belt, the Northern Plains and the Lake States account for over two-thirds of the farms and farm debt at risk.

Farm Lender Conditions

- o Over two-thirds of farm operator debt is concentrated among highly leveraged farms; and over half of this debt is owed by farms that cannot fully service their debt repayment obligations from all sources of household income. For the farm household, this means extensions of terms, lender forbearance, or possibly forced liquidation of some assets. For lenders this may mean inadequate collateral, nonperforming or renegotiated loans, or other actions which impair lender performance.
- o A total of \$75.2 billion is owed by farm operators with debt/asset ratios greater than 0.4 percent and can be considered to be at risk. Of the total operator debt, \$18.2 billion (16 percent) is owed by technically insolvent operators, and \$42.2 billion (37 percent) by operators who are unable to fully service their debts. Comparable percentages for 1985 were 13 percent technically insolvent and 45 percent unable to fully service their debts. Expectation of continued erosion in land values and concentration of debt among highly leveraged operators suggest that some farmers will continue to have difficulty servicing their debt. This means that lenders will be required to set aside substantial provisions for loan losses in 1986.
- o The loan portfolio of FmHA is the most at risk--35 percent of FmHA debt is owed by farm operators who are technically insolvent and 85 percent have debt/asset ratios above .40. Other lenders typically have 10 to 13 percent of their loan portfolios owed by technically insolvent operators and 55 to 65 percent owed by farmers with ratios above .4.

* * *

AGRICULTURAL AND COMMUNITY LINKAGES SECTION

Farm States Have Not Fully Recovered

In response to a recent assertion by a syndicated columnist that "the farm crisis has been greatly exaggerated," **Mindy Petrulis** and **Herman Bluestone** (RBG) developed an analysis of recent data that suggest otherwise.

Mindy and Herman recognize that growth in total personal income in the farm states has about kept pace with national growth between 1982 and 1985. But, point out that total personal income, taken by itself, is not a complete measure of economic distress because it says nothing about how that income is distributed among the residents of a region. Second, personal income growth fails to recognize that most of the adverse economic fallout from the farm crisis has been concentrated in the nonmetropolitan areas of the farm states. And, third, it fails to

note that the rural parts of most farm states had been under much more severe economic stress than other areas between 1979 and 1982.

Changes in employment and in the unemployment rate, which reflect both total economic activity and the distribution of that activity among the working-age population, paint a less favorable picture of economic recovery in the rural areas of the seven Plains States. These labor force indicators and income statistics also show that the 1979-82 recession hit the Plains much harder than other areas.

For example:

- o The Situation in 1979-82

Farm States in the Plains, especially rural areas, ended 1982 severely battered by the depressed economic conditions of the 1979-82 period. During this recession, wage and salary employment in the nonmetro areas of the Plains fell by almost 5 percent, while declining less than 1 percent in the nation as a whole. Real earnings declined 10 percent in the Plains compared with 4 percent in the entire country. And, in the nonmetro areas of the Plains the 1979-82 decline in real earnings was 16 percent.

- o Employment Changes in 1982-85

Employment grew more slowly between 1982 and 1985 in the Plains, especially in the rural parts of the region, than in the nation as a whole. Total employment increased 5 percent in the Plains during the 1982-84 period, compared with 6 percent nationally. And, between 1984 and 1985, nonfarm wage and salary employment (excluding military employment) increased 2 percent in the Plains, some 1.4 percentage points less than in the nation. Furthermore, nonmetro employment in the Plains increased only 2.7 percent during the 1982-85 period while metro employment grew 6.7 percent. Between 1984 and 1985, nonmetro employment growth in the Plains continued to lag about a percentage point behind metro employment growth. The nonmetro areas of the Plains provided 41 percent of the region's employment in 1984.

- o Unemployment Rates in 1982 and 1986

The unemployment rate in the Plains changed from 2.4 percentage points below the national average in November 1982 to only a tenth of a percentage point below in March 1986. In other words, the unemployment rate during the recent economic recovery dropped by only 1.3 percentage points in the Plains compared with 2.5 percentage points in the nation as a whole. It should be noted that the unemployment rate probably understates the degree of economic distress in the Plains because a relatively large proportion of the labor force in the region, especially in the rural areas, is self-employed.

- o The Apparent Discrepancy Between Indicators

The discrepancy between changes in employment and earnings in the Plains means that average earnings per worker increased

more in the Plains (especially in nonmetro areas) than elsewhere. Average earnings per worker may have increased as a result of the substitution of full-time work for part-time jobs, an increase in average hours worked per employee, and a shift in jobs from lower-paying to higher paying industries and occupations. Data to measure the effects of industrial restructuring on average earnings in the Plains should be available in two or three months.

* * *

AGRICULTURE LABOR SECTION

Biennial Survey Published

"The Hired Farm Working Force of 1983: A Statistical Profile", AER-554, was released in June. This report, by Susan L. Pollack, summarizes the demographics, educational and economic characteristics, and location of hired farmworkers. The main emphasis of the report is on the hired farm work force situation in 1983, but some attention is paid to long-term trends. A few highlights from the report are:

- o In 1983, about 2.6 million people 14 years of age and older did hired farmwork. Most of the workers were white (73 percent) under 25 years (50 percent), and male (78 percent). Hispanics made up 13 percent of the work force, and blacks and others made up 14 percent. There were significant regional differences in the racial/ethnic composition. Hispanic workers were concentrated in the Southern Plains, Mountain, and Pacific farm production regions. Blacks and others were predominantly located in the Southeast, Delta and Appalachian regions. The median level of education for all hired farmworkers was 10.7 years. Eighty-four percent did not live on farms.
- o All farmworkers averaged 100 days of farmwork in 1983, the most recent year for which data are available. Almost three-fourths of the farmworkers worked fewer than 150 days at farmwork. Regular and year-round workers (those working 150 days or more) made up only one-fourth of the work force but accounted for over two-thirds of the worker-days. Over the past decade, regular year-round farmworkers have increased their share of the total worker-days.
- o Those who primarily did hired farmwork accounted for 29 percent of the work force and received annual earnings of \$8,017. Those who primarily did nonfarmwork made up 19 percent of the workers and earned an annual average of \$8,609. Overall, hired farmworkers earned an average of \$4,815 from both farm and nonfarmwork, of which \$3,138 came from farmwork.
- o Only 9 percent of hired farmworkers (226,000) were migrant farmworkers in 1983. Forty-five percent of the migrants were white, 15 percent were Hispanic, and 39 percent were black and other races. About 39 percent of the migrants worked fewer

than 75 days at farmwork. Migrants earned an annual average of \$5,921 of which \$4,638 came from farmwork.

- o The number of hired farmworkers has not changed much during the last decade. However, the composition of the work force has changed. Workers in 1981-83 were older and did more days of hired farmwork than workers in 1971-73.

* * *

Immigration Reform

The House Judiciary Committee recently passed H.R. 3810, an immigration bill which provides for sanctions against employers of illegal aliens, amnesty for eligible illegal aliens, a revised H-2 program for agriculture, and a seasonal worker program for perishable agriculture commodities. It is not clear yet when the bill will be taken up on the House floor. In September 1985, the Senate passed S. 1200, which authorizes employer sanctions, amnesty, an H-2 program, and a guestworker program for perishable commodities. This legislation is important to agriculture because it would affect farm labor supply and labor cost.

The employer sanctions, amnesty, and H-2 provision in the two bills are similar, but there are some differences to be resolved. Such differences between the guestworker program in S. 1200 and the seasonal worker program in H.R. 3810 may not be resolved as easily because the two programs are based on different concepts regarding U.S. residency status to be given to foreign workers.

Both bills would give USDA a new role in developing regulations for the H-2 program and the House bill would require USDA and the Department of Labor to jointly estimate annually the supply of and demand for labor in the production of perishable farm commodities.

* * *

Developing New Wage Rates

The Department of Labor intends to announce in the Federal Register its proposed changes in procedures for determining piece rates for farmworkers covered by the H-2 Foreign Labor Certification Program. A staff paper "Factors Affecting Productivity of Agricultural Hand Field Workers" prepared by the Agricultural Labor Section contributed to the Department of Labor's decision. The paper will be published in the Federal Register as background information for the proposed rule change. The proposed regulation would permit the Labor Department to consider factors affecting labor productivity on an individual farm in establishing the minimum productivity requirements for H-2 workers employed on that farm. The minimum productivity level would determine the firing threshold for low-productivity employees. The proposed change in regulations would benefit those farm employers who improve the efficiency of their operations by adopting measures that increase labor productivity. The current piece rate regulation may penalize

such farm employers because increased worker productivity is not recognized in the formulation of piece rates in the H-2 program.

Agriculture Labor Section staff participated in two inter-departmental task forces which prepared recommendation for change in regulations on H-2 piece rates and hourly wage rates. The Department of Labor also will announce soon proposed changes in regulation for determining H-2 adverse effect wage rates, which are minimum hourly rates paid H-2 farmworkers.

* * *

FARM FAMILY INCOME SECTION

Brainstorming (1)

Some preliminary findings of a study "Farm Structure and the Community" by Bernal Green (FRE) and Tom Carlin were presented in an ARED seminar in June.

The researchers note the tendency in the U.S. to have a farm sector with progressively more small-sized family farms and a few super farms with the mid-sized group tending to decrease. This process varies directly with the degree of global farm competition, restrictive monetary policy, and availability of new farm technology, it is also affected at the local level by community attributes. Its impacts varies across the country. For example, in farm dependent counties, important spillover effects from the farm sector to public and private non-farm sectors occur. State and local community leaders need information on changes that the restructuring process causes.

Their research objective is to integrate farm structure and community development theory and data under one conceptual umbrella. They have identified a quartile of U.S. counties which are large-farm oriented and another quartile that are small-farm counties. Variables have been developed which depict the local farm sector, nonfarm economy, geography, and human capital in each county.

Using discriminant analysis, they identified variables that are associated with the large-farm and the small-farm groups. Their approach permits them to prepare socio-economic profiles of the two middle quartiles of counties, and depending on the resulting profile pattern, classify a particular county as leaning toward the large-farm or the small-farm group.

If a county is predisposed to become one that is polarized toward large farms, then community leaders may decide to make policy decisions that raise the probability of their being global survivors among those who compete to remain in farming. Alternatively, the community leaders may want to follow a strategy designed to move toward a diversified economy integrating farming with a strong nonfarm sector. If so, they can compare their socio-economic profile to the profile of the quartile of small-farm counties.

* * *

Brainstorming (2)

Donald K. Larson traveled to Lexington, Kentucky May 11-14 to furnish consultant and technical services on a cooperative research project between the University of Kentucky and ERS. Cooperators at the University of Kentucky are Eldon Smith and Kurt Anschel, Department of Agricultural Economics. The general objectives of the project is to identify and examine the effect economic change has on stability of employment in a 19 county area in south central Kentucky. This larger area includes the nine counties surveyed by ERS in December of 1979 which examined how jobs were distributed among the rural residents during the period 1974-79 at a time when jobs were expanding rapidly.

The specific objectives of the cooperative research project are: (1) with surveys of manufacturing establishments isolate characteristics that determine amplitudes of employment change from 1979-85 and the types of employees which are most affected by changes in levels of output and (2) by survey methods attempt to isolate a more definitive test of hypotheses regarding the demographic and skill classes which are most affected by employment instability.

* * *

Off Farm Income

Helen Jensen (Iowa State University) and **Priscilla Salant's** staff report "Fringe Benetifs in Operator Off-farm Labor Supply, Evidence from Mississippi and Tennessee" found that off-farm work by members of farm households has become a well established strategy for using farm-based labor resources. Such employment according to the authors provides both cash income and fringe benefits. The report develops and tests a theoretical model of off-farm work by farm operators that explicitly includes fringe benefits. Evidence from the USDA Mississippi and Tennessee survey support the authors hypothesis that fringe benefits increase operator off-farm labor supply.

Best Of Luck!

Priscilla Salant resigned from ERS in June 1986 to take employment in the private sector. Priscilla joined ERS in September 1979 and, while stationed at Mississippi State University, helped design, develop and implement the Mississippi-Tennessee Family Farm Survey. She transferred to the University of Wisconsin where she helped design and implement the Wisconsin Family Farm Survey. Her extensive analysis for the survey data was published at the respective Agricultural Experiment Stations, ERS reports, and in the Journal of Agricultural Economics. Her innovative research included analysis of farm and off-farm work of farm family members, the role of fringe benefits in off-farm work decisions of farm operators, and farm viability.

We appreciate Priscilla's contributions to the ERS research program and wish her and her family the best of health and happiness in the years ahead.

* * *

FARM STRUCTURE SECTION

Reporting to Congress

In the 1985 report to Congress about the status of the family farm, "The U.S. Farm Sector in the Mid-1980's", **Donn Reimund**, **Nora Brooks** and **Paul Velde** found that the dimensions of change in the U.S. farm sector over the last decade tend to be exaggerated because they are generally reported without adjusting for inflation. When the changes are recalculated in constant dollars, a truer picture emerges showing substantially less actual change.

For example, the censuses of agriculture document that the number of farms with sales above \$250,000 grew by 143 percent between 1974 and 1982 in current dollars. Yet more than half of that increase was due to inflationary increases in commodity prices. Likewise, the number of farms with sales of less than \$10,000 declined by 9 percent in current dollars, but just 1.5 percent in constant dollars.

Little change in the level of concentration of production and acres harvested between 1974 and 1982 was found. Only orchard crops and vegetable, among the crop commodities, and beef cows and hogs, among livestock commodities, showed the largest farms to be gaining market share. For all other commodities, the level of concentration either declined slightly or was steady, refuting the supposition that U.S. agricultural production is becoming more and more concentrated in the hands of a small number of very large producers.

The report compares several farm characteristics of the mid-1980's with those of a decade earlier to document the real amount of change. It looks at sources and levels of farm operator income and wealth, factor ownership and control, the organization of farm enterprises, and resources use.

* * *

Structural Change Project

Personnel from the Farm Structure Section form the core of a larger group of researchers in ARED and NED that began a major Structural Change Research Project in March 1986. **David H. Harrington** has overall supervision of project personnel, and **Tom Stucker** is Project Leader. Tom reports that progress is being made toward the project's objective of providing ERS with a systematic model for projecting the future structure of the farm sector under various economic and policy

scenarios. Initial work to date has focused on manipulation of Census of Agriculture data files to facilitate following structural change of farms over time.

* * *

FINANCE AND TAX BRANCH

The View From the Branch

by Ron Meekhof

Developments in financial markets servicing troubled rural economies will continue to be dominated by institutional change in comparison to market adjustments. This is apparent in banking with the growth of holding companies, mounting pressures for midwestern states to allow branch banking and for the federal government to ease geographic restrictions on interstate banking. The Farm Credit System faces internal restructuring and greater regulatory control. The role and responsibilities of the Farm Credit Capital Corporation are far from certain; yet the outcomes are pivotal for FCS operations and performance in the long run. The Farmers Home Administration is moving towards a role of loan guarantor from direct lender of last resort. The final outcome of each of these developments affects and is affected by farm export earnings, farm income, asset values, farm policy, and general economic conditions--areas of some uncertainty.

The dominance of changing institutional patterns make the whole scene a good bit more fluid than that usually confronted by economic analysts. Those tempted to make forecasts of farm sector economic conditions 3-5 years in the future should consider the institutional dynamics. Institutions can be assumed to be constant only if the errors associated with their not being so is small. This is not the case in analyses of farm and rural financial developments.

* * *

AGRICULTURAL FINANCE SECTION

Meetings Attended

Gregory Gajewski, Dan Milkove, and Jerry Stam attended the Conference on Bank Structure and Competition sponsored annually by the Federal Reserve Bank of Chicago in May.

This year's conference had as its theme the management of risk on the banking industry. Topics and issues of particular interest included the costs of bank failures, the role of market discipline, risk-based FDIC deposit insurance premiums and/or capital adequacy guidelines, the competitive effects of mergers between large banking firms, measuring bank assets by their current market values, trends in and

the advisability of further interstate bank branching, the likelihood of renewed profitability for small banks, and alternative banking strategies such as franchising.

Although opposing views were made clear, the dominant views among both speakers and members of the audience seemed to favor continued deregulation and greater reliance on market forces; some banks will make mistakes and fail but there is no need to treat the banking industry as fundamentally different than other industries.

Jerry Stam, Greg Gajewski, and Ken Erickson (NED) attended another meeting in May at the American Bankers Association to help plan the questionnaire of ABA's annual midyear Farm Credit Survey of member banks.

* * *

FINANCIAL MARKETS SECTION

Pat Sullivan recently completed a paper examining the major sources of funding for rural government infrastructure. "Financial Resources for Infrastructure Investment" discusses the current roles and future prospects for federal and state assistance, local funding, and private sector assistance in the construction and rehabilitation of rural public facilities. Pat reports that continuing cutbacks in federal assistance should result in heavier reliance on local funding, while tax reform could increase the effective cost of locally funded infrastructure. The paper will be published in a book on local infrastructure investment decisionmaking being edited by Tom Johnson, Brady Deaton and Eduardo Segarra (Virginia Tech).

* * *

Suburbs Pay Lower Interest Rates

George Palumbo (Canisius College) and Seymour Sacks (Syracuse University) discussed the results of their cooperative research on the rural municipal bond market at a recent ARED seminar on "Patterns of Municipal Credit in Rural Areas."

Using 1982 municipal bond sales data matched with 1980 Census of Population data, Palumbo and Sacks examined the characteristics of municipal bonds categorized according to the rural percentage of the issuing government's population. They found few instances where a simple linear relationship existed between key bond variables and the rurality of the issuing government. Palumbo and Sacks reported that suburban-type governments paid the lowest interest rates in 1982, holding bond characteristics constant, while totally urban and highly rural governments paid rates roughly equal to each other.

* * *

Spousal Earnings

Don Lerman and **Bob Lerman** (Brandeis University) will present recent findings on the impacts of alternative income sources on U.S. income inequality at a session of the Atlantic Economic Conference on August 31 in Boston. Preliminary results indicate that spouse wage earnings contribute more to inequality on the margin than do wages of the household head. Results are drawn from the newly-available 1983 Survey of Consumer Finance.

* * *

Educating Lenders

Jim Mikesell and **Dan Milkove** attended a session on Rural Credit at the Rural Economics Policy Conference, held May 6-7 at the Aspen Institute at Wye Plantation. They commented on a proposed study of West Virginia banks. The authors of the paper plan to survey the commercial loan practices of these banks, with the idea that additional loans might be made if bankers were familiar with more sophisticated types of loans.

* * *

Helping Borrowers

At the request of Wayne Angell (Federal Reserve Board of Governors), **Greg Gajewski** investigated the feasibility of commercial banks using the FmHA's interest rate buydown program in conjunction with generally accepted accounting principals for restructuring problem loans, as spelled out in FASB-15. Increase use of FASB-15 is a central part of the federal bank regulators' program for aiding commercial banks experiencing serious farm loan problems. Greg found that, in most cases, banks could use the FASB-15 rule together with FmHA's interest rate buydown program to help their troubled farm borrowers.

* * *

TAX ANALYSIS SECTION

Senate Tax Proposal

Recent work by **Ron Durst** and **Ron Jeremias** has analyzed the potential impacts on agriculture of the Senate tax reform bill. The bill was passed by the Senate on June 24 and now must be reconciled with the House bill that was passed last year.

The final debate by the Senate resulted in four amendments of significance to agriculture: (1) income averaging was retained for active farmers, thereby reducing their tax liability by \$300 million over the next five years, (2) farmers can cash in a portion of their

unused tax credits with limitations, (3) the debt to asset ratio limitation on farmers who exclude from income a discharge of indebtedness resulting from loan restructuring was removed, and (4) the alcohol fuel tax credit was restored.

* * *

Farm Economies

Preliminary analysis by **Ken Krause**, on market exchange economies in crop production suggests that farmers can obtain buying and selling economies as farm size increases. Lower purchased input prices generally will be obtained when farm size increases through volume transactions. Higher net output prices can sometimes be obtained from increased sales volume. Volatility in input and crop prices has increased. Thus, farmers are required to use more resources to determine when to buy and sell. Management requirements to obtain both volume discounts and selling premiums and to properly time input purchases and product sales do not increase in direct proportion to increasing farm size.

* * *

HUMAN RESOURCES BRANCH

View from the Branch by Max Jordan

I have mentioned in a previous ARED Newsletter that the Human Resources Branch adopted a policy of reviewing proposed new research in an open peer review/seminar. We continue to get very positive feed-back from researchers when they describe the results/benefits of these seminar presentations. These peer reviews have much merit as a communication medium, as well as a channel for firming up hypotheses, data sources, and methodology. They also assure that cognizance is taken of previous or ongoing work on the proposed topic, and that some thought is given to potential outlets for the research results and user groups.

On May 29, Linda Ghelfi presented, in a seminar, her plans for studying the inequality in income distribution in poor U.S. counties. She made a thoughtful presentation and was very pleased with the helpful suggestions from peers.

Leonard Bloomquist, Molly Killian, and Shelly Pendeleton have presented their research plans to members of the Southern Regional Research Committee (S-184) Labor Markets and Labor Force Differentiation in Nonmetro Areas, during a session of the Southern Stratification Research Conference. These plans will be presented in ARED seminars soon.

We also have a written research proposal in the Branch developed by

Susan Bentley and Robert Hoppe which we are recommending as a model for use in finalizing research plans. It contains all the essential elements in appropriate detail (theory/literature review, hypotheses, data and methodology).

Strengthening our research planning process has been a Branch goal in FY'86. I am generally pleased with our efforts so far.

* * *

INCOME AND WELLBEING SECTION

Policy Studies Organization

Ken Deavers, Bob Hoppe, and Peggy Ross are completing a book chapter on rural poverty for the Policy Studies Organization. An article (a shortened version of the chapter) will appear in the December issue of the Policy Studies Review. The book chapter begins by describing the dimensions of rural poverty. It discusses the extent of rural poverty, how it has changed, the characteristics of the rural poor, and the costs of poverty. This background information is then used to examine the major issues related to antipoverty policies and programs and their relative importance and likely effectiveness for rural people and areas. The article focuses more on policy issues.

* * *

Unearned Income Increasing

Susan Bentley is researching the growth, composition, and distribution of unearned income (income other than salaries and wages) for rural America. Unearned income consists of (1) transfer payments such as Social Security, food stamps, and unemployment compensation and (2) property income from dividends, interest, and rent. Some preliminary findings are:

- o Unearned income has become increasingly important. In 1983, unearned income accounted for over 33 percent of total personal income in the U.S., compared to 23 percent in 1970.
- o About 75 percent of property income was received in the form of interest income in 1983. Another 11.5 percent of property income was rental income, and the remaining 14 percent was income from dividends
- o Approximately 74 percent of transfer payment income was distributed through retirement programs; another 6.5 percent was distributed by unemployment compensation. Public assistance and miscellaneous transfer payments accounted for another 9.0 and 10.2 percent, respectively, of total transfer payment income.

- o In 1983, per capita unearned income was \$3988 in the metro U.S. and \$3566 in the nonmetro U.S.

* * *

POPULATION SECTION

Black Farmers Mostly in the South

"Black Farmers and Their Farms" by Vera Banks reports that black farmers represented less than 2 percent of the nation's 2.2 million farmers in 1982, down from 14 percent in 1920; however, they represented 61 percent of all minority farmers. Black-operated farms continue to be heavily concentrated in the South. By 1982, more than 60 percent of all black farmers were full owners of their farms, compared with only 16 percent in 1930. The average black-operated farm has only about 100 acres compared with the national average of 440 acres. Most black farmers in 1982 specialized in livestock and cash grains; however, they were more likely than other farmers to rely on tobacco for their principal source of farm income. Almost a third of all black farmers were 65 or older. Less than a fifth of all farmers nationwide were that old.

* * *

About the Nation's Elderly

Nina Glasgow gave an invited presentation to the Rural Delegates Council of the National Council on the Aging on April 9th in Washington, DC. The Rural Delegates Council met in conjunction with NCOA's annual meeting.

Nina spoke on current conditions of the rural and small town elderly population, with emphasis on trends for the post 1980 period.

Nonmetro retirement counties, or counties with high inmovement of older people during the 1970-80 period, have grown at a rate three times the growth rate of other nonmetro counties and have captured almost half of all nonmetro population growth since 1980. Counties with high proportions of older people, many of which are characterized by historic outmigration of younger people, are located in agricultural areas of the midwest and southwest and run through the mid-section of the country.

Nina discussed direct and indirect impacts of the farm crisis on older residents of these agricultural counties. Direct impacts pertain to disproportionate share of farm land owned in this country by the elderly (almost 30 percent of farm acreage is owned by older people who comprise only 11 percent of the total population). Farm land owners have seen declines in the values of their land for sale, rent, or harvest. Indirect impacts are felt in communities with declining services and businesses that older people formerly had access to.

Nina also attended a conference sponsored by Americans for Generational Equity, "Tomorrow's Elderly: Planning for the Baby Boom Generation's Retirement."

Conference speakers debated changes that will be needed in social security and medicare as the cohorts of the "Baby Boom" generation reach retirement age. Among the recommendations were greater use of IRA's and similar personal retirement plans, means testing to determine level of social security benefits, and portable private pension plans (from job-to-job).

* * *

Policy-Oriented Research Called For

Linda Swanson attended a research symposium held June 12-15 by the Population Studies Center of The University of Michigan, entitled "Frontiers in Social Demography and Population Policy: The Research Agenda." Linda as a commentator for the Urbanization and Migration Session spoke of the need for policy-oriented research to address a problem implicit in recent U.S. population redistribution trends.

Research on redistribution shows that the dispersion of jobs out of the core of metropolitan areas has combined with increased mechanization to effect a decrease in central cities of jobs requiring little skill or education. Linda stated that the concentration in our cities of poorly educated, unemployed people with no realistic hope of ever becoming employed on a long-term basis, has led to a rapidly growing group of people who live at the margins of our society. Policy-oriented research aimed at identifying the underlying structure of this sub-society, which is quickly becoming separated from the mainstream, is necessary to avoid spending on programs which treat only symptoms of a fundamental problem.....disenfranchisement.

* * *

RURAL LABOR MARKETS SECTION

Labor Market Areas Delineated

Molly Killian reports that delineation of local market areas is now complete. Under a cooperative agreement with Charles Tolbert at Florida State University, 382 labor market areas (LMA's) have been identified that encompass all counties and county-equivalents in the United States. Using a statistical technique called hierarchical cluster analysis and 1980 Census data on inter-county commuting flows, the LMA's represent areas where people both live and work.

Preliminary analyses show that in 105 of the 382 LMA's, the majority of the population lives in rural areas. All of the counties are nonmetropolitan. Forty-eight of the LMA's are predominately rural, but contain at least one (small to medium-sized) metropolitan county.

And 30 of the LMA's contain all nonmetropolitan counties, but are less than 50 percent rural.

In addition to preliminary work being done here on the aggregated characteristics of these LMA's, the Census Bureau is currently in the process of creating a 1-in-100 Public-Use Microdata Sample (PUMS-D) from the 1980 Census of Population and Housing. This PUMS-D file will contain extensive information on the jobs, earnings, sociodemographic and household characteristics of the local labor market residents.

* * *

Understanding Rural Poverty

Len Bloomquist along with Jess Gilbert (University of Wisconsin-Madison) presented a paper "The American South as an Internal Colony: Social Consequences of Uneven Development' to the Southern Sociological Society Meetings held in New Orleans in April.

Len stated that the idea of "internal colony" has emerged in some recent regional development theory to explain the relative poverty of such areas as Scotland and Wales within the United Kingdom. Len and Jess investigated the ways in which the internal colony idea is useful for understanding rural poverty in the U.S. South in the period between the Civil War and World War II.

* * *

Farm Enlargement and Social Decline

Alan Bird presented a paper "Farm Enlargement and Economic Distress in the Northern Great Plains and Western Corn Belt" to the annual conference of the Western Economics Association International in July. The conference was held in San Francisco.

Alan pointed out that average farm size for the region increased 30 percent from 1960 to 1980, while farm population decreased 40 percent. Nonfarm population for the region's 159 rural counties increased, but not enough to avoid a net loss of 16 percent of the total rural population.

Residents remaining in the region sought nonfarm jobs, generally in places distant from their residence, yet these rural counties had the lowest 1979 per capita incomes. These same counties had the highest 1980 percentages of elderly and poverty and the fewest retirees on social security.

Alan suspects these rural counties will experience further social decline. He suggests that regional development strategies are needed.

* * *

RURAL BUSINESS AND GOVERNMENT BRANCH

View from the Branch by Norm Reid

I recently saw a demonstration of a dial-up computer service called POLINET, operated by North Carolina State University as a communications medium for political scientists and public administrators. As I see it, POLINET offers a real possibility for structured interchanges between colleagues across the continent. While its features are similar to those available from other communications systems, its value to us is enhanced by the uses to which we hope to put it. We're currently looking at POLINET to serve a National Small Governments Research Network being established under ERS' auspices. The network initially made up of researchers in 10 states plus ERS researchers who have an interest in small, rural local governments, will attempt to develop an information base for local governments in the participating states. Information would be gathered using common categories and shared through the POLINET system. Data, communications, and even publications exchange could all take place through this on-line medium. Structured discussions and on-line conferences to follow up the one recently held in Washington can be conducted via computer. By working collectively through POLINET we can fill important learning gaps from the national data sets we now rely on. It's an exciting concept whose time, it seems, has come.

* * *

Council of State Governments Meeting

Norman Reid attended a meeting in Lexington, Kentucky, May 22-23 given by the Council of State Governments to develop appropriate strategies for its newly-established Center for Agriculture and Rural Development. Also attending were representatives of state universities, the Extension Service, the Southern Rural Development Center, the Farm Foundation, and state governors' offices.

Norm sees an important role for the Center as a go-between in communicating knowledge and information from the research community to policymakers and policy priorities from public officials to researchers. ERS is working actively with the Center through the exchange of publications, information, and data by participation in the work of the Center.

* * *

RURAL BUSINESS AND INDUSTRY SECTION

Getting Data on Small Businesses

Herman Bluestone chaired and **Jim Miller** assisted the Small Business Statistics Subgroup of the Interdepartmental Working Group on the Quality of Economic Statistics, coordinated by OMB and the Commerce Department. The subgroup found that the quality and availability of statistics for small businesses has declined, due to (1) deterioration of administrative records on which some series are based and (2) reductions in the small business content of some major economic surveys.

The subgroup offered recommendations and concluded that substantial progress is unlikely without additional funds. It recommended that small business-statistics needs be prioritized and that OMB set standards, under the supervision of statistics-producing agencies, for improving the quality of administrative records. It also recommended a wider sharing of information and sampling lists among statistics-producing agencies. The subgroup believes that this can be done while still protecting the confidentiality of individual businesses.

* * *

Rural Entrepreneurship Project

The Economic Development Administration has agreed to participate in and to partially fund ARED's Rural Entrepreneurship Project. The research, which will get underway in the next few months, involves both project work in-house and cooperative agreements with four university-based research groups. The total project budget is \$392,000. EDA is contributing \$108,000 and ERS and the universities are contributing \$284,000. **Herman Bluestone** and **David McGranahan** will direct the project. The other principal investigators are: **James P. Miller**; **Buddly L. Dillman** of Clemson University; **Joe Francis** and **Ruth Young** of Cornell University; **Gene F. Summers** of the University of Wisconsin-Madison; and **David Barkley** and **Stephen M. Smith** for the University of Arizona.

The study will assess the importance of local entrepreneurship in generating rural jobs and identify appropriate ways in which governments can promote enterprise information, survival, and growth. It will combine a national level analysis using secondary data for U.S. counties with intensive local studies using case study or survey research techniques, in four separate regions.

The overall aims are: (1) to describe the characteristics of entrepreneurs and new business ventures, (2) to investigate the processes by which new firms are created in rural areas, (3) to identify the characteristics of local areas with higher levels of entrepreneurial activity, (4) to estimate the job generating potential

of new enterprise formation, and (5) to identify possible local and national policies.

* * *

STATE AND LOCAL GOVERNMENT SECTION

Effects of the Farm Crisis on Rural Local Governments

Tom Stinson's study of farm dependent counties in eight states, mostly in the Corn Belt, "Governing the Heartland: Can Rural Communities Survive the Farm Crisis?," has been published as a part of a committee publication with the same name.

His research found that loss of farm income would have multiplying effects severely undercutting local government revenues in distressed, farm dependent counties. Coupled with planned reductions in federal aid to state and local governments, and with state revenue problems in states where farming is important, some rural local governments will have to reduce services considerably.

This work, highlighted by Senator Durenberger in his campaign for a new, targeted version of revenue sharing has received considerable national publicity.

Copies of the committee publication will soon be available from the Subcommittee on Intergovernmental Relations of the Senate Committee on Governmental Affairs.

* * *

Sokolow Completes Sabbatical

Al Sokolow will return to the University of California at Davis in mid-July. He has been dividing time during his one year sabbatical between the State and Local Government Section of ERS and the National Association of Towns and Township. In addition to writing several reports on field work in small jurisdictions in Illinois and California, Al will produce a monograph on "How Small Governments Manage and Decide," and a shorter piece on local government capacity-building.

* * *

The Effects of Decentralization

In a paper presented before the April conference of the American Society for Public Administration in Anaheim, Rick Reeder examined the effects of fiscal decentralization on rural and urban local governments. Declining federal aid from 1977-82 put pressure on local governments to reduce their spending or increase their revenue efforts (locally raised general revenues as a percentage of local income).

Preliminary results from regression analysis suggests that declining federal aid reduced total revenues of local governments, but had little or no immediate effect on spending. This suggest that local governments spent down their balances of accumulated surplus funds. Federal aid was not significant in explaining changes in local revenue efforts. However, state aid (which includes federal pass-through funds) was an important determinant of changes in local government spending and revenue raising.

This underscores the role played by states in the ongoing fiscal decentralization. With the help of stable or rising state aid, totally rural areas fared better than other types of urban and rural areas from 1977-82, when they were able to increase their real spending on most functions, while experiencing little or no increase in local revenue efforts.

* * *

BEST OF LUCK TO DEPARTING EMPLOYEES

George Amols, economist, Agricultural Finance Section of Finance and Tax Branch resigned in May to accept a position with Batelle Pacific Institute.

James Hrubovcak, economist, left the Tax Analysis Section of the Finance and Tax Branch in May to join the Natural Resource Policy Branch of the Natural Resource Economics Divisions.

Ronald Kampe, economist, retired with over 30 years of government service in August. Ron was recently with the new Income and Well Being Section of Human Resources Branch, but spent much of his career doing rural housing research in the "Old Housing Section."

Ron and his wife Clare live in Bush Hill (Fairfax County), Virginia but have lately developed a fondness for the South -- especially, Florida.

John Kuehn, economist, resigned in June from Rural Labor Markets Section, Human Resources Branch. John was stationed at Columbia, Missouri and had 20 years of service with the federal government.

Priscilla Salant, economist, resigned in June from the Farm Family Income Section of Farm and Rural Economy Branch. Priscilla was stationed at the University of Wisconsin.

Wayne Rasmussen, historian, Chief of Agriculture and Rural History Branch retired August 1, 1986.

* * *

Performance Awards Presented

Congratulations to:

- * **Harriett Brinkley** who received a cash award "For outstanding performance in dealing with the public on information requests and in typing a large volume of controlled correspondence, staff analyses, and manuscripts on agricultural finance."
- * **Ron Durst** who received USDA's Superior Service Award "for exceptional contributions to the tax policy analysis that significantly improved the public's knowledge of the effects of taxes and tax reform on the agricultural sector."
- * **Jim Malley** and **Ralph Monaco** who received Certificates of Merit for their, "extraordinary service, especially for the development of DARTS (Database and Automated Retrieval System)."

And Congratulations to:

- * **Susan Bentley** and **Harry Vroomen** for their June 7, 1986 marriage. The new groom is an economist in Natural Resources Economics Division.
- * **Donna (McGuinn) Grist** and **George Grist** for their June 27, 1986 marriage. George is employed at Central Virginia Steel.
- * **Peggy Ross** who became a grandmother to Susanna Hope Street, born May 27, 1986 in San Angelo, Texas. Susanna was prematurely born at six months and weighed only one pound and twelve ounces. Everyone is doing fine, after an early struggle.

* * *

Recent Publications

- o "Black Farmers and their Farms" by Vera Banks. ARED/ERS/USDA Rural Development Research Report #59, July 1986. U.S. Government Printing Office.
- o "The Mid-Atlantic Region in Transition: Employment Trends, 1974-84" by Theodore Fuller. ARED/ERS/USDA Rural Development Research Report #57, April 1986. U.S. Government Printing Office.
- o "The Hired Farm Working Force of 1983" by Susan L. Pollack, ARED/ERS/USDA Agricultural Economics Report #554, June 1986 U.S. Government Printing Office.
- o "The U.S. Farm Sector in the Mid-1980's" by Donn Reimund, Nora

Brooks, and Paul Velde. ARED/ERS/USDA Agricultural Economic Report #548, May 1986, GPO Stock No. 001-019-00441-0.

- o "Fringe Benefits in Operator Off-Farm Labor Supply: Evidence from Mississippi and Tennessee" by Helen H. Jensen and Priscilla Salant. ARED/ERS/USDA Staff Report No. AGES860403, June 1986.
- o "What Attracts New Residents to Nonmetro Areas?" by Linda L. Swanson. ARED/ERS/USDA Rural Development Research Report No. 56, April 1986, U.S. Government Printing Office Stock No. 001-019-00430-1.
- o "Monetary Policy: Money and Credit Targeting" by Frank Zahn and Kim Losin. Business and Economic Review, Fall 1986 (Forthcoming).

* * *

Upcoming Events

- September 3-5 "America's Town Meeting," National Association of Towns and Townships, Washington, DC.
- September 14-17 Council of State Community Affairs Agencies 12th Annual Conference, San Antonio, Texas.
- December 7-9 "Ushering in the 21st Century - Emphasis on the Rural South," The 44th Professional Agricultural Workers Conference, Tuskegee University, Alabama.

* * *

How to Purchase Reports

ERS does not have copies of publications available for free distribution. Please contact the authors for information on how to order these publications or follow these instructions:

- o GPO reports and periodicals: For Price and ordering instructions write Superintendent of Documents, Government Printing Office, Washington, DC 20402; or call GPO order desk at (202) 783-3238.
- o NTIS Reports: For price and ordering instructions write Identification Section, National Technical Information Service, 5825 Port Royal Road, Springfield, VA 22161, or call at (703) 487-4780.

* * *

Names, Topics, and Telephone Numbers

In order of their appearance in this Newsletter:

	<u>AREA CODE</u> (202)
Kenneth L. Deavers, Rural America	786-1530
Gerald Schluter, AER	786-1285
J. Norm Reid, Video tape	786-1542
Jim Malley, PC econometrics	786-1283
Ralph Monaco, G-R-H bill	786-1283
Doug Bowers, Agriculture history	786-1896
Dave Harrington, Farm finances	786-1621
Mindy Petrulis, Farm states	786-1524
Susan Pollack, Farm workers	786-1540
Bob Coltrane, Wage rates	786-1932
Pat Sullivan, Finance	786-1884
Greg Gajewski, Helping borrowers	786-1884
Ron Durst, Tax analysis	786-1889
Susan Bentley, Unearned income	786-1539
Vera Banks, Black farmers	786-1534
Molly Killian, Labor markets	786-1540
Alan Bird, Farm enlargement	786-1540
Herman Bluestone, Small business	786-1549
Jim Miller, Rural entrepreneurship	786-1547
Rick Reeder, Decentralization	786-1546

* * *

Special thanks to:

The Assistant Editor of the ARED Newsletter, Gwen Coleman, for her excellent typing.

* * *

Contact the Editor:

The ARED Newsletter is published quarterly (January, April, July, and October) and is distributed free of charge to USDA personnel, ARED retirees, and other colleagues interested in agriculture and rural economics issues.

If you need to alter an address or add an address, or submit news items or comments, please contact the editor: **PAUL R. MYERS**, (202) 786-1549, Room 328C, ARED/ERS/USDA, 1301 New York Avenue, NW, Washington, DC, 20005-4788.

Copy for our Fall ARED Newsletter is due October 3, 1986.

UNITED STATES DEPARTMENT OF AGRICULTURE
ECONOMIC RESEARCH SERVICE
1301 NEW YORK AVENUE, N. W.
WASHINGTON, D. C. 20005-4788

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300

FIRST-CLASS MAIL
POSTAGE & FEES PAID
USDA
PERMIT NO. G-145